October 27, 2008

Board Chair Mason Willrich
Board Member Linda Capuano, Ph.D.
Board Member Laura Doll
Board Member Tim Gage
Board Member Thomas A. Page
Mr. Yakout Mansour, President and Chief Executive Officer

Subject: Western Power Trading Forum Comments to the Board of Governors on the CAISO's Proposed Uneconomic Adjustment Policy

WPTF appreciates the opportunity to offer comments on the CAISO staff's uneconomic adjustment policy. The staff's proposal has two fundamental flaws. First, it introduces another layer of price mitigation. Second, it is unfair to the extent it shifts the consequences from parties that create the problem by self-scheduling, to parties that are instrumental in relieving it by offering flexible demand and supply bids.

The current CAISO proposal would set schedules and dispatch units based on one set of parameters (in the range of thousands of dollars) and settle the results based on parameters a fraction of that amount, and at a much lower level than the CAISO originally proposed in its "final draft proposal" dated June 30, 2008. (See Attached comparison table for a sample of parameter values.) Your Market Surveillance Committee advises against using separate sets of penalty prices and rather recommends a single set of parameters to provide consistent incentives. (June 30, 2008 opinion, excerpt attached).

If you reject the MSC's preferred solution at this time, at a minimum we recommend you both (1) establish a mechanism under which the CAISO publishes all instances in which self-scheduling is triggering uneconomic adjustments and (2) use the set of parameters that the CAISO advocated for several months last fall rather than the values in their more recent proposal and transition, as the MSC recommends. WPTF recommends a transition to a consistent set of parameters within 6 months of startup.

Note that this does not benefit buyers over sellers or sellers over buyers. While higher positive prices may mean more revenues for a seller and more costs for a buyer, more extreme negative prices mean just the opposite: less costs for buyers and low or negative revenues for sellers. Further, WPTF includes a broad set of members including buyers and sellers.

We do want to make sure that market prices properly reflect system conditions so that electricity suppliers and electricity consumers can make informed investment and operating decisions. This also avoids the self-reinforcing situation where administrative remedies hide the real cost of system constraints, perpetuate inefficiencies and require ongoing administrative intervention through such means as uneconomic adjustments. Only solutions that encourage a self-balancing system will be viable in the long run.

We hope you will both question the level of the parameters at startup as we have suggested and require a post-go-live transition consistent with the MSC recommendation.

A specifically modified board resolution is provided as an attachment to these comments.

Thank you for your consideration.

Sincerely,

Ellen Wolfe
For WPTF

Attachments

Excerpt from

Uneconomic Adjustment Policy for Market Redesign and Technology Upgrade (MRTU)
for Locational Marginal Pricing Scheduling and Pricing Runs
by

Frank A. Wolak, Chairman
James Bushnell, Member
Benjamin F. Hobbs, Member
Market Surveillance Committee of the California ISO

June 30, 2008

4. Concluding Comments

We believe that it would be unreasonable to treat the schedules of ETCs, TORs, and self-scheduled resources as completely sacrosanct and inviolable. There are many other important constraints, including meeting demand, that need to be balanced in some way. Therefore, the use of finite penalty parameters for allowing such trade-offs is both necessary and consistent with current practices.

However, we also believe that the true impacts of enforcing these constraints will be masked by the use of much higher penalty values in the scheduling run than in the pricing run. Among other problems, this scheduling and pricing run mechanism permits stakeholders to avoid confronting and defining the relative costs of the choices that need to be made between various priorities. We recognize the need to allow a divergence between penalty parameters in the scheduling and pricing run during the initial stages of the MRTU market to protect consumers from unjust and unreasonable prices. We prefer a process in which there is only one combined scheduling/pricing run with one set of parameters that are used to determine both priorities and prices, in which the penalties are based on an agreed upon economic and regulatory rationale for relative marginal values of preserving different schedules. Then prices would provide appropriate incentives for rights holders and market participants to adjust schedules and increase flexibility. As market participants gain greater experience with the MRTU market, we recommend that the ISO take actions to equate the penalty parameters between the scheduling and pricing runs.

We recognize that achieving the proper balance between protecting against unjust and unreasonable prices and shielding market participants from price signals that reflect the benefits that certain generation resources provide to the ISO control area is an extremely complex task. We also recognize that there are great political and legal challenges involved in creating of market mechanisms in an integrated power system in which there are parties with existing rights who for their own reasons do not wish to fully participate in the new markets; as a result of these challenges, practical compromises have been necessary in the form of non-market prioritizations for some parties. However, it is also important to recognize that enforcing the scheduling run parameter imposes costs on the system, even if the price impacts of those costs are muted by the lower pricing-run parameters. We expect that the ISO will have to monitor these impacts, both on the scheduling parties and on other parties, of whatever values are chosen. We encourage the ISO to evaluate both the *cost* and *price* impacts of these choices. This logic supports our recommendation that the process for setting the values of these penalty parameters recognize that

Sample Comparison of Market Parameter Values

	Pricing Run Parameter Values	
Penalty Price Description	Current Proposal	June 9, 2008 Proposal
Market energy balance	500	1500, 5000
Transmission constraints: Intertie scheduling	500	30,000
Transmission constraints: branch, corridor, nomogram (base case and contingency analysis)	500	1500, 5000

Modified Board Resolution

(WPTF proposed modifications shown in italics.}

Motion Moved *as follows:*

a) that the ISO Board of Governors approves the proposed rule changes, as detailed in the memorandum, dated October 20, 2008, *and the pricing run parameter values recommended by WPTF as detailed in the CAISO's June 9th proposal;*

b) That *uneconomic adjustments parameters act as an interim measure for a period of time not to exceed six months following MRTU startup, after which time the pricing and scheduling parameters will be set to the same values; and*

c) that the ISO Board of Governors authorizes Management to make all of the necessary and appropriate filings with the Federal Energy Regulatory Commission to implement the proposed rule changes regarding the setting of scheduling and pricing parameters for uneconomic adjustment in the CAISO market.